Walgreen
DRUG STORES

WALGREEN CO. (An Illinois Corporation) AND SUBSIDIARY COMPANIES

ANNUAL REPORT TO STOCKHOLDERS - SEPTEMBER 30, 1946

WALGREEN CO.

OFFICERS AND DIRECTORS

CHARLES R. WALGREEN, JR.	*Director—President*
SANFORD J. BOWYER	*Director—Vice President*
H. TRACY FOWLER	*Vice President*
HARRY GOLDSTINE	*Director—Vice President*
ROBERT G. KNIGHT	*Director—Vice President and Treasurer*
BERT O. PINCH	*Director—Assistant Secretary*
ROLAND G. SCHMITT	*Director—Vice President and Secretary*
A. L. STARSHAK	*Director—Vice President*
RAY E. WALKER	*Director—Agency Division*
JAMES E. WARD	*Director—Vice President*
O. G. GILE	*Assistant Secretary*
P. J. REDFORD	*Assistant Secretary*
W. J. COONEY	*Assistant Treasurer*

TRANSFER AGENTS

In Chicago	First National Bank
In New York	Guaranty Trust Co.

REGISTRARS

In Chicago	Harris Trust & Savings Bank
In New York	Commercial National Bank & Trust Co.

AUDITORS

Arthur Andersen & Co., Chicago

November 23, 1946.

TO OUR STOCKHOLDERS:

For our fiscal year ended September 30, earnings per share were $2.64, after providing for an addition of $500,000 to our reserve for the costs of rehabilitation and improvement to properties, and including a profit of $577,000 on the sale of an investment in the first half of the year, explained in my letter to you in our March 31 report. In our previous fiscal year, earnings were $2.20 per share and the provision for rehabilitation and improvements was $400,000.

With earnings for the year greater, reserves of various kinds were increased to strengthen our position. The second half of the year (April 1—September 30)—which showed a sales increase of more than 24% over the corresponding six months of last year—had a decrease in earnings before taxes, with a slight increase on a comparable basis after taxes and reserves.

When the Emergency Price Control Act expired on June 30, we were confronted with a serious problem. Wholesale food prices immediately went sharply upward, and unless selling prices were increased, we would incur a substantial loss in our soda fountain department. On the other hand, the period of price control uncertainty was expected to be of short duration. We decided, as did most firms operating nationally, not to increase prices. This decision was made both in the interest of our nation and to preserve our reputation with our customers, since fountain prices should not be subject to frequent and abrupt changes.

What we believed to be sound pricing policy resulted in a very substantial loss for a protracted period, since there was considerable delay before price controls were re-established. When they were, many important products required by our fountains were left uncontrolled, although our fountain selling prices were under a ceiling.

While retail fountain prices necessarily have been adjusted to conform with wholesale prices, it is our plan in general to raise prices only when clearly necessary, believing that the many increased costs of doing business can be best offset, in the long run, by striving to the greatest degree feasible for a larger volume of sales.

Our special postwar personnel training programs—including "G I" training—involved a heavy expense during most of the fiscal year just closed, and will continue during a large part of this year. We are pleased with the results, and believe that the hundreds of men and women whom we have in training will make a very substantial contribution to the near-term and long-term success of our Company.

Inventories are markedly higher than last year, as you will observe from the comparative balance sheets which follow. Five primary factors contribute to this condition: (1) earlier deliveries of Christmas merchandise; (2) the purchase of many staple items unavailable during the war and eagerly awaited by our customers; (3) delays in shipments from suppliers confronted with strike conditions require us to protect ourselves with heavier stocks; (4) erratic delays caused by transportation congestion add to the problem; and, (5) the requirements of our increased volume of business. However, we expect inventories to decline within the near future.

Although earnings were $2.64 per share of common stock, we did not deem it advisable to make any change in our dividend rate at this time. Earnings above dividend requirements are being used to finance the present large volume of business, and in general to strengthen still further the position of your Company. We believe that stability of income is the paramount desire of our stockholders, and, to the maximum extent possible under whatever economic conditions the future may hold, we shall try to insure this.

At the end of the fiscal year we were operating 412 stores, comparing with 427 at the same time a year ago. Sixteen stores—almost all of them small ones—were sold or closed. Two more were destroyed by fires not originating in them. Three were closed to be replaced by better stores nearby, and one, temporarily, for major remodeling. Seven stores were opened.

"Sanborn's"—probably the best known retail business in Mexico and enjoying sole distributorship for that country of a great many of the best known American drug products—was founded 43 years ago. Mr. Frank Sanborn's decision to sell the business appeared to us to represent an opportunity to acquire an enterprise presently and potentially profitable and capable of judicious expansion in several ways. It was the judgment of all of our management and advisors that under present conditions operations in a sister country should, in the interest of minimum risk and maximum potential, be in partnership with its citizens. The acquisition of the business was, therefore, made in conjunction with a well-known firm of investment bankers in Mexico City, our Company retaining approximately 23% of the capital stock of Sanborn's, at a cost of $613,000. Most of the rest of the stock is owned by Mexican investors. Our Company has a comprehensive general management contract, giving us the widest powers in running the business, and we have already provided a general manager. We have, also, the right to purchase a large additional block of stock, which we expect to exercise when appropriate for expansion of the business, at which time we would own about 50% of all shares of the enlarged company. Its financial statements are not consolidated with ours. The interest which we own is carried in the investment section of our balance sheet, and income from it will be taken into our profit and loss statements only insofar as dividends are received. A number of very able and prominent citizens of Mexico are stockholders and, in some cases, directors of Sanborn's.

In later pages of this report you will find the financial statements and certificate of independent accountants. We have also included some informative exhibits of current Company developments and activities, which should prove both enlightening and interesting to you, as a partner in this business.

Sincerely,

C R Walgreen, Jr.

President

WALGREEN CO. AND

CONSOLIDATED BALANCE SHEETS—SEP

ASSETS

	1946	1945
Current Assets:		
Cash	$ 9,503,906	$ 8,641,027
United States Treasury tax notes and bonds	3,404,376	7,001,393
Accounts receivable, less reserves	1,093,132	697,900
Inventories of merchandise, priced at the lower of cost or market, less reserves	19,413,804	14,851,753
Total Current Assets	33,415,218	31,192,073
Prepaid Rent, Insurance, Taxes, Etc.	827,644	736,899
Investments and Other Assets:		
Investments in and advances to affiliated companies	556,278	428,053
Stocks and bonds of other companies, at cost	898,928	305,970
Notes and accounts receivable, less reserves	525,353	282,370
Total Investments and Other Assets	1,980,559	1,016,393
Fixed Assets:		
Cost—		
Land	279,629	119,413
Buildings (including buildings on leased land)	1,088,768	1,018,300
Equipment	10,508,260	10,202,330
	11,876,657	11,340,043
Less—Reserves for depreciation	7,021,417	6,918,023
Total Fixed Assets	4,855,240	4,422,020
Short Life Equipment, at cost less amortization	101,786	67,766
Goodwill, Leaseholds, Leasehold Improvements, Etc., at nominal amount	1	1
	$41,180,448	$37,435,152

SUBSIDIARY COMPANIES

TEMBER 30, 1946 AND SEPTEMBER 30, 1945

LIABILITIES

	1946	1945
CURRENT LIABILITIES:		
Trade accounts payable	$ 5,310,397	$ 3,312,232
Provision for Federal taxes on income	3,705,838	4,847,315
Accrued expenses and taxes, and other liabilities	3,309,577	2,268,722
TOTAL CURRENT LIABILITIES	12,325,812	10,428,269
RESERVE FOR FUTURE COST OF IMPROVEMENTS TO LEASED PROPERTIES, ETC.	2,000,000	1,500,000
CAPITAL STOCK AND SURPLUS:		
Preferred stock—		
4% cumulative, par value $100 per share; redeemable on call or in voluntary liquidation at $3 to $1 per share premium; if available, a minimum of 1,000 shares must be purchased yearly for retirement, at not less than par nor more than current redemption price, and, if the accumulated number of shares to be so purchased exceeds 5,000, the excess must be redeemed (present unfilled orders total 4,500 shares)—		
Authorized and outstanding 65,000 shares	6,500,000	6,500,000
Common stock without par value—		
Authorized 1,955,522 shares; issued and outstanding 1,292,485 shares	11,484,112	11,484,112
Earned surplus, per accompanying statement	8,870,524	7,522,771
TOTAL CAPITAL STOCK AND SURPLUS	26,854,636	25,506,883
	$41,180,448	$37,435,152

WALGREEN CO. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

For the Years Ended September 30, 1946 and September 30, 1945

	1946	1945
SALES AND OTHER INCOME:		
Net sales and other store income	$141,093,779	$119,174,822
Other income (net)	333,958	311,145
	141,427,737	119,485,967
COSTS AND DEDUCTIONS:		
Cost of sales and of selling, occupancy and administration, except depreciation (including, in 1946, addition of $500,000 to reserve for inventory losses)	132,816,120	109,809,198
Depreciation of buildings and equipment	752,736	714,395
Provision for contribution to employees' retirement pension trust	668,000	485,000
Improvements to leased properties	215,719	36,275
Lease cancellations	—	3,150
Losses and write-downs on real estate and real estate investments (net)	16,433	107,131
Capital stock, State income and franchise taxes	110,000	230,486
Provision for Federal taxes on income—		
Normal tax and surtax	2,520,000	1,750,000
Excess profits tax	730,000	2,820,000
	137,829,008	115,955,635
NET PROFIT BEFORE SPECIAL CREDIT AND RESERVE PROVISIONS	3,598,729	3,530,332
Gain on sale of investment in affiliated company after applicable income taxes	577,000	—
Reserved for future cost of improvements to leased properties, etc.	*500,000*	*400,000*
NET PROFIT	$ 3,675,729	$ 3,130,332

STATEMENT OF CONSOLIDATED EARNED SURPLUS

For the Years Ended September 30, 1946 and September 30, 1945

	1946	1945
BALANCE BEGINNING OF YEAR	$ 7,522,771	$ 6,988,357
NET PROFIT	3,675,729	3,130,332
	11,198,500	10,118,689
DEDUCT:		
Dividends paid—		
To preferred stockholders	260,000	282,355
To common stockholders—$1.60 per share	2,067,976	2,067,976
Net premium on exchange and redemption of 4½% preferred stock	—	245,587
	2,327,976	2,595,918
BALANCE END OF YEAR	$ 8,870,524	$ 7,522,771

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

To the Board of Directors,
WALGREEN CO.:

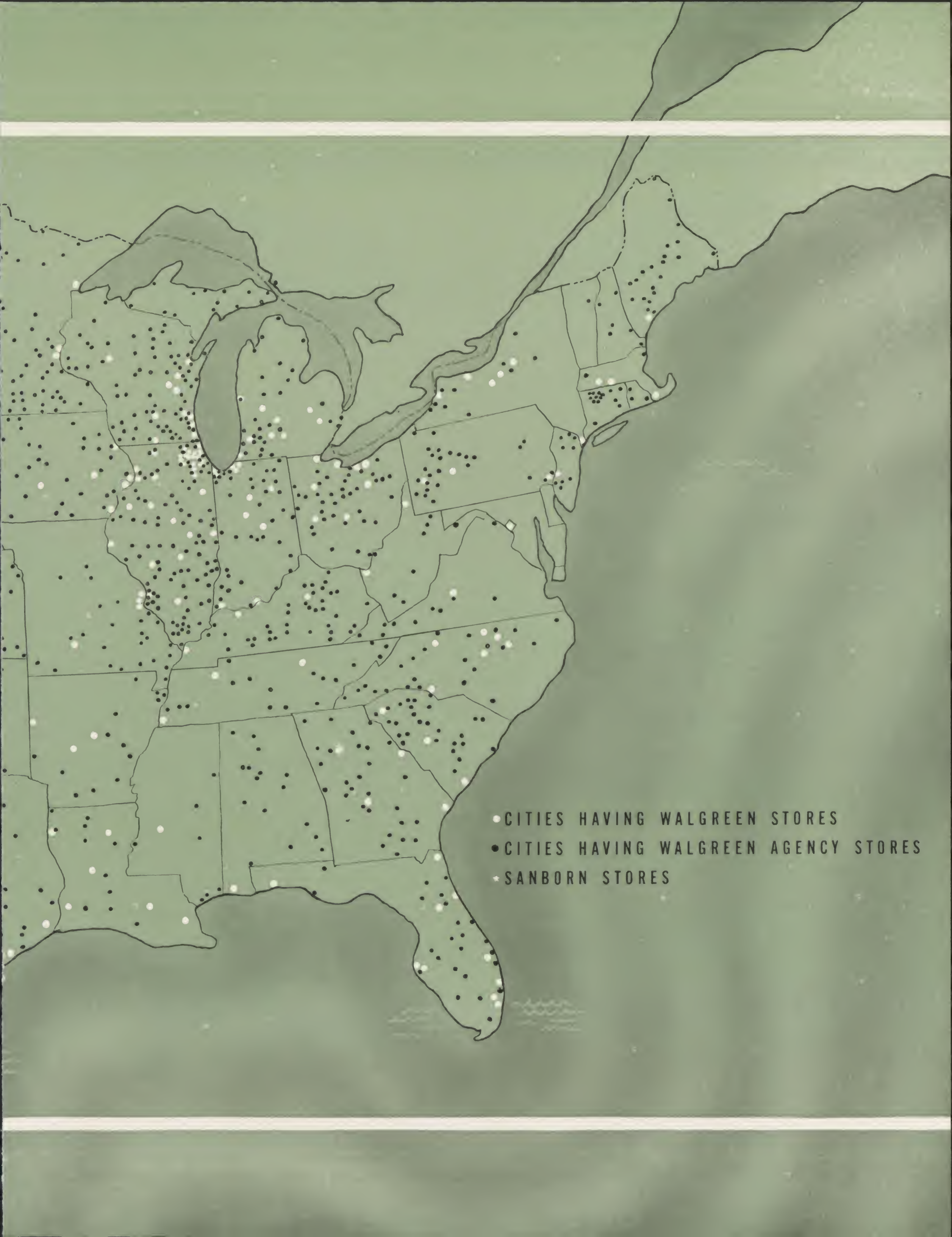
We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARY COMPANIES as of September 30, 1946 and the statements of consolidated profit and loss and earned surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year ended September 30, 1945.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus present fairly the position of Walgreen Co. and subsidiary companies at September 30, 1946 and the results of their operations for the fiscal year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,
November 13, 1946.


Walgreen
DRUG STORES
MONTERREY
MEXICO CITY



CITIES HAVING WALGREEN STORES
CITIES HAVING WALGREEN AGENCY STORES
SANBORN STORES

Walgreen DRUGS

THE SIGN OF *Leadership*

SMITH Walgreen Agency DRUG STORE

The map on preceding pages show the national representation afforded Walgreen-made products through the combined facilities of Walgreen and Walgreen Agency Drug Stores.

We are making progress in the size and caliber as well as the number of the independently owned and operated drug stores that comprise our agency affiliates. Each Walgreen agent is carefully selected because of his prominence, progressiveness and high standing in those communities in which our own stores are not located or planned. We have always believed that the important thing is the quality of our agents, rather than their number.

We were the pioneers in giving qualified agents extensive assistance in planning full-scale modernization and improvement programs for their drug stores. Hundreds of these independent merchants were greatly benefited, as was our company. A great number of new, up-to-the-minute plans have been worked out in conjunction with our agents, and are being put into effect as rapidly as conditions permit.

Walgreen drug stores and Walgreen Agency drug stores ask your patronage —as a Walgreen stockholder, and as a discerning customer.

FORWARD IN '47

PROGRESS BASED ON PLANNING

Dedicated to the sound premise that "The Future Belongs To Those Who Prepare For It", your company recently concluded its third—and most successful—annual conference of executive and key personnel.

Held in Chicago, and a business session in every sense of the word, two full days were devoted to a vigorous exposition of the plans and programs of each of our many departments for the coming year. Twenty executives and department heads, each covering a different phase of Walgreen operation, made it clear to those in attendance that important developments on all fronts are in the making.

THE DRUG STORE OF

FOR a number of years we have operated a store at the busy intersection of Broadway and Diversey Parkway on Chicago's north side. We were interested in finding out what a modest addition to store depth, a modernized layout and an intensified merchandising activity could do in what always had been considered a good store. Changes were completed in June of this year.

Efficiency reaches a peak in this newly designed fountain.

EVERY department is showing improvement, with over-all volume currently running 105% ahead of the comparable period of last year as compared with a company-wide increase of about 24%.

TOMORROW --- TODAY

New lighting, new fixtures, new layouts—all are designed to show AND SELL more merchandise in every department.

External improvements, such as this window display, keep pace with modernized store interior.

ANOTHER EXAMPLE OF

OUR location at the outlying business intersection of 12th Street and West Vliet in Milwaukee, Wisconsin, presented a different type of problem. The old store, located on the best—the southeast corner—could not be enlarged. Believing that more space was essential to increased sales volume, we elected earlier this year to move across the street to the less prominent southwest corner and install a modern new drug store.

Enlarged space permits maximum display, wider aisles, better traffic flow through and past all departments.

WALGREEN PROGRESS

The pictures on these pages tell the story of great physical improvement, but most important, this store currently shows an increase of 137% in sales—several times the average for the city as a whole.

New type fixtures show merchandise most effectively; impress customers with quality and variety of items offered.

"High Vision" entrance and brilliant store lighting bring attractive store interior to the attention of all who are passing.

Each department is complete; geared for maximum volume.

Walgreen DRUG STORES

SANBORNS MEXICO

Our recent acquisition of an interest in "Sanborn's", probably the best known retail institution in Mexico, is a move which should prove of interest to all Walgreen stockholders.

The Sanborn business enjoys an outstanding reputation for merchandising an unusual variety of quality wares in widely diversified fields. The unique traditional character of this business will of course be maintained. The two retail stores operated—one in Mexico City and one in Monterrey — are favorably known and patronized both by residents of Mexico and by tourists from all parts of the world. Sanborn's are also exclusive distributors throughout the Republic for the products of many prominent American drug and cosmetic firms.

With Mexico making outstanding progress in commerce, industry and living standards, we look for our operation of Sanborn's not only to prove immediately profitable in itself, but to provide a nucleus for future Mexican expansion.

A partial view of the Drug and Prescription Departments, Mexico City.

C. E. Cooper,
General Manager.

Famous Patio Restaurant—"The" place to eat in Mexico City

The famous "House of Tiles," built in 1596, home of Sanborns.

Walgreen
DRUG STORES